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SUBJECT: IRAN: SENIOR IRANIAN BANKER SHARES VIEWS ON  
IRANIAN BANK EXPANSION

REF: BERLIN 2192

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Classified By: Political Minister Counselor Jeffrey Rathke for reasons  
1.4(b)/(d)

11. (S/NF) SUMMARY: A senior Iranian banker confirmed recent press reports that the Germany-based European Iranian Commercial Bank (EICB) is expanding and will be opening a new office in Tehran, with further plans for a new Dubai office. The EICB is owned by a group of Iranian state-owned banks, including the USG-designated Bank Mellat. The banker, who until recently served as deputy chairman of a leading Iranian state-owned commercial bank, expressed grave concern about Iran's general macroeconomic situation, particularly inflation and unemployment, placing the blame for Iran's economic woes squarely on the shoulders of President Mahmoud Ahmadinejad. While anecdotal, the conversation with the banker raises questions about how second-tier Iranian banks are maneuvering their operations as international pressure on the Iranian financial system continues. END SUMMARY.

12. (S/NF) Confirming reports by Iranian state-run Press TV on December 25, a senior Iranian banker told Iranwatcher December 27 that the Hamburg-based European Iranian Commercial Bank (EICB) will open a new office in Tehran shortly. According to its website, EICB shareholders are comprised of major Iranian state-owned banks: the Bank of Industry and Mining, Bank Tejarat, Bank Kefeh, and USG-designated Bank Mellat. In addition to its Hamburg offices, the bank also currently has an office in the Iranian Kish Island free trade zone. The official added that he expects to personally open and manage a new Dubai branch of the EICB that will open in the very near future. Press TV's December 25 report stated that the Central Bank of Iran's May 2007 decision to permit joint Iranian and foreign banks to engage in banking operations inside Iran has enabled the new Tehran office to be opened. Press TV hailed the move as a means of attracting foreign investment and facilitating trade transactions with other countries.

13. (S/NF) When asked about the EICB's motivation for expanding to Dubai, the banker explained that Iranians recognize the dire economic situation in their country and are again moving their money to Dubai; he claimed that recent cash flows from Iran to Dubai exceeded 2 billion USD. Banking activities are, thus, increasingly moving from Iran to Dubai as well, he added. Sanctions are hampering some business operations, but workarounds are being found; he detailed his recent trip to Prague to purchase corporate

financial software from the Czech subsidiary of a German company after the German parent refused to sell it directly to him due to sanctions.

14. (S/NF) Despite his own encouraging prospects in the current environment, the banker voiced grave concern about the Iranian macroeconomic situation overall, stating that a current 30% inflation rate, 20% unemployment, combined with a dramatic drop in foreign investment due to sanctions, has cooled the Iranian business climate. He claimed that Iranian growth rates are currently at .5% compared to the 5% growth of the Khatami years. When asked about the cause of the economic hardships, he placed the blame for the situation squarely on Ahmadinejad's shoulders; he also blamed Ahmadinejad for the effects of the current international sanctions as the nuclear program was Ahmadinejad's policy. (NOTE: Throughout the conversation the banker repeatedly made derisive comments about Ahmadinejad and expressed a desire for improved U.S.-Iranian relations.).

15. (S/NF) When asked about the potential for IRIG policy shifts, the banker expressed skepticism that the regime would change direction on its nuclear enrichment and proliferation-related activities in the near-term. A sudden change could be expected only if ailing Supreme Leader Ali Khamenei were to pass away, he said. Otherwise, the 2009 Iranian presidential elections would be the first opportunity for a new direction. He also expressed doubt that the March 2008 Majles elections would figure significantly in policy decisionmaking, given the unlikelihood that the Guardian Council's vetting process would allow any reform-oriented candidates.

16. (S/NF) COMMENT: Noticeably absent from the banker's comments - normally heard from Iranian interlocutors - were the expressions of frustration over sanctions and their impact on everyday Iranians. Instead, the banker seemed

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resigned to waiting out Ahmadinejad's administration (and its negative economic impact) and to make the most for his business interests out of a bad situation.

17. (S/NF) COMMENT (CONTINUED): Post plans to follow up with German Finance Ministry officials for their analysis of the operations of second-tier Iranian banks (like the EICB) in Germany. FinMin officials have previously told us that the German Federal Financial Monitoring Authority (BaFin) has stepped up its oversight of Iranian banks, but has been disinclined to take conspicuous action in the absence of concrete evidence of wrongdoing, including proliferation-related activity (reftel). We expect our FinMin interlocutors to repeat their request for detailed, actionable information - ideally evidence suitable for possible presentation in a court of law - on Iranian banks under U.S. observation regarding proliferation-related activities. END COMMENT.

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